

# Horizon Oil Ltd

## (HZN \$0.11) Buy

**Analyst**  
Jon Bishop

**Date**  
December 2018

**Price Target**  
\$0.20/sh

### Comments

- Sustainable 4kbbbls/d production fully developed for next 5yrs at breakeven of <US\$35/bbl;
- US\$50m/yr in FCF vs current EV of US\$225m = trading at 50% EV:FCF multiples of peers;
- Short term growth with ODP at Beibu Gulf Stage 3 development;
- Blue sky potential with corporate M&A landscape in PNG moving in on Western Forelands PNG project;
- Most recently, the PNG Petroleum Minister has motioned to allow 3rd Party access to PNG-LNG pipeline infrastructure for stranded gas resources;
- However, upside capped until PDL-10 (Stanley Field license) is resolved;

Val/ Sh		Brent Oil								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUD/USD	0.20									
	15%	\$0.167	\$0.177	\$0.187	\$0.197	\$0.206	\$0.215	\$0.226	\$0.233	\$0.243
	10%	\$0.165	\$0.175	\$0.185	\$0.195	\$0.204	\$0.213	\$0.224	\$0.231	\$0.241
	5%	\$0.162	\$0.172	\$0.183	\$0.193	\$0.202	\$0.210	\$0.221	\$0.229	\$0.239
	0%	\$0.160	\$0.169	\$0.180	\$0.190	\$0.199	\$0.208	\$0.219	\$0.226	\$0.237
	-5%	\$0.156	\$0.166	\$0.177	\$0.187	\$0.196	\$0.205	\$0.216	\$0.224	\$0.235
	-10%	\$0.153	\$0.163	\$0.174	\$0.184	\$0.193	\$0.202	\$0.213	\$0.221	\$0.232
	-15%	\$0.149	\$0.159	\$0.170	\$0.180	\$0.190	\$0.199	\$0.210	\$0.218	\$0.229

Val/ Sh		US\$ Gas - PNG								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUD/USD	0.20									
	15%	\$0.206	\$0.206	\$0.206	\$0.206	\$0.206	\$0.206	\$0.206	\$0.206	\$0.206
	10%	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204	\$0.204
	5%	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202	\$0.202
	0%	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199	\$0.199
	-5%	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196	\$0.196
	-10%	\$0.193	\$0.193	\$0.193	\$0.193	\$0.193	\$0.193	\$0.193	\$0.193	\$0.193
	-15%	\$0.190	\$0.190	\$0.190	\$0.190	\$0.190	\$0.190	\$0.190	\$0.190	\$0.190

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Brent Oil	\$75	\$84	\$85	\$85	\$85	\$85
US\$ Gas - PNG	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
AUD/USD	\$0.75	\$0.74	\$0.75	\$0.75	\$0.75	\$0.75

### Investment Case

HZN operating performance remains solid and has translated to a consistent reduction in debt up until the price fall since Sep. The current share price is underwritten to 15cps by the producing assets net of Balance Sheet on our numbers. Buy maintained: HZN offers pure oil price leverage with firming oil prices. Its core assets and fully developed production of +4,000bopd for the next 5yrs will generate over US\$35m/yr in free cash flow (after capex) at spot Brent price, systematically de-gearing the Balance Sheet. The uncertainty of PDL 10 is disappointing and removes HZN's blue sky for now as it has inevitably stoked deep seeded market concerns regarding sovereign risk pertaining to PNG. We are confident that this issue will be rectified in due course. The push for 3rd Party access to PNG-LNG pipelines may expedite value crystallization for HZN's large Western Foreland gas resources and the US\$130m Osaka Gas payment on FID.

### Our Market Sensitivity

**Valuation - \$0.20/sh**  
**Price Target - \$0.20/sh**

#### Bull Scenario - \$0.25/sh

Oil price continue to strengthen, rising at 20% above our assumptions. Whilst M&A and/or organic development momentum crystallises value for the PNG portfolio.

#### Base Scenario - \$0.20/sh

Oil price rise in line with our assumptions. M&A and/or organic development momentum crystallises value for the PNG portfolio.

#### Bear Scenario - \$0.08/sh

Oil prices fall 20%.

### Company Summary

Horizon Oil Ltd (HZN) is an oil & gas exploration, development and production company. HZN focusses on three main projects, producing the Maari field offshore New Zealand and Chinese Beibu Gulf. The production asset underwrite the current share price whilst PNG - on account of its size and increasingly strategic value - offers substantial blue sky potential.

Liquids rich 2P/2C reserves are 10.64 and 153.18 mmbob. Dec H production of 3374 boepd is anticipated to rise to 5316boepd for FY'19.

### Market Statistics

**Share Price** \$0.110 **A\$/sh**  
**Issued Capital**  
**Fully Paid Ord** 1,302.0 m  
**Op @ 6cps** 302.5 m  
**Share Rights** 125.3 m  
**Total Dil. FPOrd** 1,728.3 m

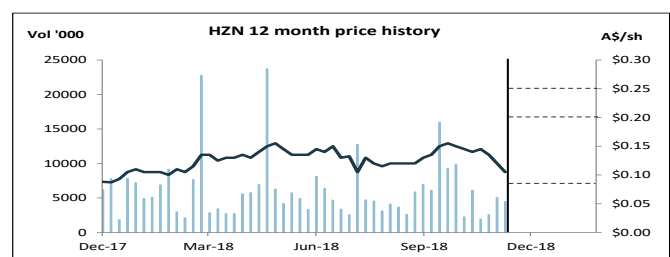
**Market Cap'n (dil)** \$172 m  
**Enterprise Value** \$ 274 m  
**Debt** \$(129) m  
**Cash** \$ 27 m

**Directors**  
 R Harding Chair  
 M Sheridan CEO  
 G Bittar NE Dir  
 S Birkenleigh NE Dir  
 G de Nys NE Dir  
 B Lorenzon NE Dir

**Shareholders**  
 IMC 31.0%  
 Spheria 8.4%  
 Colonial 7.3%

### Year End 30 June

### Share Price Performance



**Euroz Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Horizon Oil Ltd during the last year. Euroz Securities has received a fee for these services.**

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 RESOURCES QUARTERLY DECEMBER 2018

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Asset Valuation	A\$m	A\$/sh
NZ - Maari	128	0.07
China - Wei	180	0.10
China - WZ 12-8E undev. - nom. risked	56	0.03
PNG (net 2C - 603Bcf; 19mmbbls) - nom. risked	111	0.06
Hedging	(8)	(0.00)
Corporate (inc tax credits)	(38)	(0.02)
Unpaid Capital	18	0.01
Debt	(129)	(0.07)
Cash	27	0.02
<b>Total</b>	<b>344</b>	<b>0.20</b>

F/Cast Production (A\$m)	2018a	2019f	2020f	2021f
<b>Attrib. Prod'n (mmboe)</b>				
Maari (NZ)	0.5	0.7	0.6	0.5
Wei (China)	0.9	0.6	0.6	0.5
Wei (cost recovery oil equiv)	0.3	0.4	0.4	0.3
Western Foreland (PNG)	-	-	-	-
<b>Total Attrib (mmboe)</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>
boepd	4,591	4,547	4,265	3,771
<b>Assumptions</b>				
Avg Brent Oil Price (US\$/bbl)	75.0	75.0	83.8	85.0
USD:AUD	0.78	0.75	0.74	0.75

Ratio Analysis (A\$m)	2018a	2019f	2020f	2021f
CF (US\$m)	38	33	35	37
CF / Sh (Ac/sh)	3	3	3	3
CF Ratio (x)	3.9	4.3	4.1	3.9
Earnings (US\$m)	(3)	16	20	15
EPS (Ac/sh)	(0)	1	2	1
EPS Growth (%)	na	na	28%	-29%
Earnings Ratio (x)	na	8.9	7.0	9.8
E'prise Val. (A\$m)	283	239	199	157
EV : EBITDA (x)	4.1	4.0	4.0 #DIV/O!	
EV : EBIT (x)	8.5	7.4	7.0 #DIV/O!	
Net Debt / ND+Eq (%)	47%	15%	3%	na
Interest Cover (x)	0.9	5.0	27.3	na
EBIT Margin (%)	32%	35%	37%	33%
ROE (%)	-3%	8%	9%	6%
ROA (%)	10%	11%	12%	9%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio	-	-	-	-
Div. Yield	-	-	-	-
Div. Franking	-	-	-	-

#### Reserves and Resources

	Oil mmbbls	Cond mmbbls	Gas Bcf	Total mmboe
2P Reserves Beibu (China)	5.2	-	-	5.2
2P Reserves Stanley (PNG)	-	-	-	-
2P Reserves Maari/Manaia (NZ)	5.4	-	-	5.4
<b>Total</b>	<b>10.6</b>	<b>-</b>	<b>-</b>	<b>10.6</b>
2C Resources Maari-Manaia (NZ)	18.0	-	-	18.0
2C Resources Beibu (China)	3.2	-	-	3.2
2C Resources Stanley (PNG)	-	18.6	603.0	126.3
<b>Total</b>	<b>21.2</b>	<b>18.6</b>	<b>603.0</b>	<b>147.5</b>
<b>EV / 2P boe (A\$)</b>				<b>25.8</b>
<b>EV / 2P+ 2C boe (A\$)</b>				<b>1.7</b>

Profit and Loss (A\$m)	2018a	2019f	2020f	2021f
Oil Equivalent Sales	106	108	107	86
Hedging Revenue	(6)	-	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	0	1	3	3
Other Revenue	1	-	-	-
<b>TOTAL REVENUE</b>	<b>100</b>	<b>109</b>	<b>110</b>	<b>89</b>
Operating Costs	28	32	30	24
Dep/Amort	29	28	27	23
O/H + New Bus Dev	4	8	8	8
W/O & Provisions	6	3	3	3
EBITDA	67	68	69	55
EBIT	32	37	39	29
Interest Expense	35	6	4	2
NPBT	(2)	32	38	29
Tax	(1)	9	11	8
NZ royalty	1	7	8	7
Minorities	-	-	-	-
<b>NET PROFIT</b>	<b>(3)</b>	<b>16</b>	<b>20</b>	<b>15</b>
Net Abnormal Gain/(Loss)	10	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>(12)</b>	<b>16</b>	<b>20</b>	<b>15</b>

Cash Flow (A\$m)	2018a	2019f	2020f	2021f
Net Profit	(12)	16	20	15
+ Working Capital Adj.	16	-	-	-
+ Dep/Amort	29	28	27	23
+ Provisions	6	3	3	3
+ Tax Expense	(1)	9	11	8
- Tax Paid	0	7	11	10
<b>Operating Cashflow</b>	<b>38</b>	<b>49</b>	<b>50</b>	<b>38</b>
- Capex + Development	-	15	15	1
- Exploration	8	5	5	5
- Assets Purchased	30	-	-	-
+ Asset Sales	-	-	-	-
+ Other	(0)	-	-	-
<b>Investing Cashflow</b>	<b>(38)</b>	<b>(20)</b>	<b>(20)</b>	<b>(6)</b>
+ Equity Issues/Opt conv	-	17	-	-
+ Loan D'down/Receivable	-	100	-	-
+ Other	-	-	-	-
- Loan Repayment	17	109	30	30
- Dividends	-	-	-	-
<b>Financing Cashflow</b>	<b>(17)</b>	<b>8</b>	<b>(30)</b>	<b>(30)</b>
<b>Period Sur (Def)</b>	<b>(16)</b>	<b>36</b>	<b>(0)</b>	<b>2</b>
Adj. FX effects	(1)	-	-	-
<b>Cash Balance</b>	<b>28</b>	<b>64</b>	<b>64</b>	<b>65</b>

Balance Sheet (A\$m)	2018a	2019f	2020f	2021f
<b>Assets</b>				
Cash	28	64	64	65
Current Receivables	15	15	15	15
Other Current Assets	4	4	4	4
Non-Current Assets	262	254	247	230
<b>Total Assets</b>	<b>310</b>	<b>338</b>	<b>330</b>	<b>315</b>
<b>Liabilities</b>				
Borrowings	112	100	70	40
Current Accounts Payable	19	19	19	19
Non Current Liabilities	69	-	-	-
Other Liabilities	14	14	14	14
<b>Total Liabilities</b>	<b>214</b>	<b>133</b>	<b>103</b>	<b>73</b>
<b>Net Assets</b>	<b>95</b>	<b>205</b>	<b>227</b>	<b>242</b>

